



MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Erin Erben, Power Resources & Strategic Planning Manager, Dave Churchman,
Trading & Power Operations Manager & Jason Heuser, Legislative Representative
DATE: February 5, 2013
SUBJECT: Tri-Annual Regional Policy Update for Electric Utility

Issue Statement

The primary purpose of this backgrounder is to provide a standing update of regional policy priorities, market conditions, and legislative initiatives relevant to EWEB. As background information for the new Board Commissioners, we have also included a brief background on staff affiliations and general policy prioritization criteria.

Background

EWEB's Regional Forum Representation by Electric Utility Commissioners or Management

EWEB management is currently involved with the following trade and advocacy organizations that do work regarding regional and/or national power issues:

- **Northwest Public Power Association.** - NWPPA is an international association representing and serving consumer-owned, locally controlled utilities in the Western U.S. and Canada. NWPPA exists to enhance the success of its members through education, training, public information, governmental relations and value added services. John Brown is on the NWPPA Board through 2014. EWEB management participates in various NWPPA forums and educational/training opportunities.
- **Public Power Council (PPC)** - Represents Northwest Public Utilities on power supply contract and wholesale rate issues before BPA and other regional entities. EWEB representative is Roger Gray. Debra Smith serves as alternate.
- **Pacific Northwest Utilities Conference Committee (PNUCC)** - A utility forum consisting of representatives from the region's investor and publicly owned utilities, direct service industries, and BPA. PNUCC coordinates the development of regional electric load and resource forecasts and provides a forum for discussion of common issues relating to power supply, coordinated system operation, regional grid reliability,

and other related matters. EWEB's designated representative is Roger Gray. Planning Manager Erin Erben sits on the System Planning Committee.

- **The Northwest Energy Efficiency Association (NEEA)** – NEEA is a regional market transformation and marketing organization that coordinates energy efficiency work across the region to access markets and resources that are common to all utilities by bargaining leverage of size through coordination across them.
- **Public Generating Pool (PGP)** - The PGP is composed of eleven consumer-owned electric utilities, ten in Washington and one in Oregon, that work together on issues of common interest. All ten members own or purchase non-federal generating resources: Nine of the PGP members also purchase 34 percent of the requirements power sold by the Bonneville Power Administration. EWEB's designated representative is Debra Smith.
- **American Public Power Association (APPA)** - Advocates in Washington DC on matters of national interest and concern to Public Power and provides training and education for its member utilities. APPA is also a source for industry benchmark survey data. There is no formally designated EWEB Representative, but Board members and staff participate to varying degrees.
- **Western Energy Coordinating Council (WECC)** - Maintains and monitors reliability standards for the Western U.S. Serves as a technical resource to member utilities on matters concerning generation dispatch, grid interconnection and operating protocols, and serves as regional mechanism for implementation of FERC and NERC reliability standards. EWEB representatives are Dean Ahlsten and Gene Austin.
- **Northwest Power Pool (NWPP)** - An entity that coordinates technical aspects of utility generation and transmission system operation for planning and reliability purposes. NWPP also monitors regional loads and resources, reserve margins, and adherence to inter-utility operating protocols. EWEB's operational representative is Dave Churchman and Energy Imbalance Market representative is Debra Smith.
- **Western Energy Institute (WEI)** - A regional association with a mission to educate, develop skills and leadership, and facilitate information exchange and networking among employees of member companies. Debra Smith currently serves on the WEI Board and various staff members represent EWEB on different committees.
- **Regional Technical Forum (RTF)** – The RTF exists as a part of the NW Power Council and is responsible for establishing deemed savings and program documentation requirements for EE program reimbursements. Its primary objective is to provide policy recommendations to the Council on how best to meet the mutual needs of the RTF's stakeholders, while maintaining its role as the pre-eminent independent technical body on energy efficiency in the region.

EWEB's 2013 Regional Policy Priorities

EWEB has a Regional Policy Plan that sets the general approach and means of prioritizing work across the many issues that exist in the regional dialogue. Staff prioritizes regional work around our ability to influence, maximizing financial benefit, and minimizing risks through both direct participation and collaboration with EWEB partners. For each new regional issue, staff determines their approach using the following guidelines.

	RISK LEVEL		
INFLUENCE ABILITY	HIGH	MEDIUM	LOW
HIGH	DRIVE	DRIVE	MONITOR
MEDIUM	DRIVE	INFLUENCE	MONITOR
LOW	INFLUENCE	MONITOR	MONITOR

Regional Policy Objectives

The following priorities represent the primary objectives of the program:

1. Ensure Preference access to firm transmission for EWEB's non-federal resources.
2. Maximize EWEB's Long Term benefit of the Federal Columbia River Power System (FCRPS).
3. Minimize the risk of trapping wind in the northwest driving down power prices.
4. Effectively communicate significantly relevant regional information to EWEB staff and Board.
5. Maximize the benefits of Energy Efficiency and Demand Side Management.
6. Collaborate and share resources with others.

Discussion

2013 Regional Policy Priorities

A. Maintain Transmission availability for EWEB's customers (Objective 1)

1. ST Competition/Rules

In an effort to align itself with FERC policies, BPA is implementing a competition in its short-term transmission markets. This effort is occurring at the same time the national organization, North American Energy Standards Board (NAESB), is developing its policies to help ensure coordination.

EWEB's Position – As a Network Transmission (NT-native load) customer in the BPA balancing authority, EWEB purports that it should have priority access over any other non-load serving customer to help guarantee its ability to serve customers in the future.

2. Development of BPA Network Available Transmission Capacity (ATC) and BPA Business Practices

BPA has begun to align itself with FERC methodology and in the process will be revising most of its models. It is critical the NT customers, especially the four that schedule like EWEB, to make sure the modeling assumptions accurately reflect our transmission practices and rights.

EWEB's Position – BPA needs to provide enough flexibility in their modeling of NT customers so as to ensure EWEB can bring a future resource located anywhere on the system home to our load.

3. Network Open Season (NOS)

BPA currently has 300 requests sitting in its queue on hold for long term transmission. At this time few transmission are being granted because of transmission constraints. The NOS process is where BPA clusters the requests to determine if there are builds that would resolve most of these requests in the queue.

EWEB's Position - EWEB wants BPA to treat its transmission requests requiring a build to serve load as an IOU would treat any transmission build in its service territory, particularly with regard to its financial commitment. We don't mind providing some kind of assurances but want BPA to adopt a financial model that represents the customer default risk.

4. Ancillary Services (ACS) Forum

The ACS Forum is focused on terms & conditions, business practices and implementation service options for generators to choose as outlined in the BPA initial rates proposal. This is a follow on to the BOATT discussions and FERC complaint.

EWEB's Position – As a wind owner and preference customer of the FCRPS, EWEB wants BPA to develop systems and processes that are 'fair' and 'reasonable' and are consistent with BPA statutes and FERC guidance.

B. Ensure equitable cost allocation of BPA power and transmission (Objectives 1, 2 & 3)

1. Transmission Rate Case

This is the first fully litigated transmission rate case since 1996. Since then the customers have agreed to settle. For this reason EWEB is paying careful attention to the new products and services, especially to balancing reserves for wind and solar and the use of the Federal Columbia River Power System (FCRPS) for integration.

EWEB's Position – Work within the BPA rate case process to influence the costs allocated to EWEB. As a wind owner we want the allocation of costs to wind versus load to accurately reflect the costs placed on the federal system. EWEB currently supports BPA's proposed allocation of the existing federal system and the collection of revenues for any additional balancing reserves required for wind to be attributed to the wind.

2. Oversupply Rate Case and FERC Litigation on BPA Environmental Redispatch
The FERC litigation on this issue has emerged because of a strong conflict among BPA and its traditional customers and the wind power generators. Under the Oversupply (OS) protocol, BPA displaces generation other than hydropower when necessary to maintain system reliability and protect aquatic life. During these situations BPA compensates generators for their displacement-related costs. BPA has proposed to allocate the costs incurred equally between power customers and generators that elect compensation. BPA must take any OS rate through the rate case process as outlined in its statutes.

EWEB's Position – EWEB is actively following this rate proceeding and FERC's recent related rulings. At this time we are still collecting information and determining a strategy. Because EWEB is both a BPA customer and owner of wind generation our position is more “nuanced” than either traditional BPA customers or wind generators. EWEB's primary interest is that uncertainty on this issue be removed in a reasonable fashion.

C. Energy Efficiency/Demand Side Management (Objective 5)

1. Mid-Term Assessment

The primary purpose of the report is to check on the region's progress implementing the Sixth Northwest Power Plan, issued by the Council in February 2010. The 5 year power plan forecasts electricity demand 20 years into the future and includes an action plan for acquiring generating and energy-efficiency resources to meet the anticipated demand.

EWEB's Position – The mid-term assessment is a good process to establish expectations for the 7th Power Plan. EWEB looks forward to participating in a public process with the Northwest Power and Conservation Council (NWPPC) to develop the 7th plan that is reflective of the current industry, transparent, and flexible.

2. Energy Efficiency (EE) Funding Change –

BPA collects revenue to fund Energy Efficiency through their power rates. They then reimburse customers like EWEB once we have demonstrated we have been successful in energy efficient programs.

EWEB's Position - EWEB has a long history of running successful energy efficiency programs. We would like BPA to stop round tripping the dollars and allow EWEB to manage our own EE programs. Given BPA's growing capital constraints, EWEB also believes that those limited capital dollars are best used for BPA's core resources (it's hydropower resources and transmission system).

D. BPA Financial Health (Objective 1 & 2)

1. BPA's Quarterly Business Review (QBR)

The QBR is a quarterly forum that focuses on BPA's finances with a review of current fiscal year actual financial results compared to financial forecasts, as well as other current agency topics. BPA also reports on how actual spending compares to rate case assumptions and the status of its capital projects/budget.

EWEB's Position - EWEB needs to keep up to date on BPA's cost are and how they may impacts EWEB's financial position. The more EWEB staff understands BPA's finances the better influence we can exert during BPA's 2-year budget setting process (called the Internal Business Review (IBR)).

2. BPA's Rate Structure

BPA's rate for the Block product is credited based on its secondary revenue. Customers have been asking BPA to revisit the way they calculate the block power rate. Currently the block power rate is credited with secondary revenue which can be volatile over a 3 year period; however, lately it has been low and continues to be forecast low which increases the block rate.

EWEB's Position - EWEB wants to be part of the discussion. With our BPA slice power product EWEB takes on the secondary market risk and we want to make sure any change is something we can live with.

2013 Legislative Policy Priorities

A. Northwest Power and Conservation Council

EWEB staff met with Oregon's new representative on the Council, Henry Lorenzen, an attorney from Pendleton. Discussion centered on issues that will be addressed in the Council's upcoming Midterm assessment of the 6th Power plan. Staff communicated to Council Member Lorenzen that the draft mid-term assessment was already a pretty good snapshot but that we wished to further underscore though the importance of the final assessment acknowledging: 1) importance of addressing peak capacity needs; 2) that utilities are situated very differently and the document should advise those reading not to use averages to presume a "composite utility" standard exists that is universally applicable; 3) the challenging economics of energy efficiency due to flat load growth and soft power prices; 4) the usefulness of "built in" adaptability to changing circumstances within a power plan iteration; and 5) the possibility that a recommendation not to extend the Columbia River Treaty with Canada has a rational basis. EWEB will be filing formal comments on the mid-term assessment soon. Additionally, Council Member Lorenzen engaged in an extended Q&A session about EWEB and the profile of our utility and agreed it would be productive for both he and us to continue to stay in regular touch on regional issues of concern.

B. Oregon Department of Energy

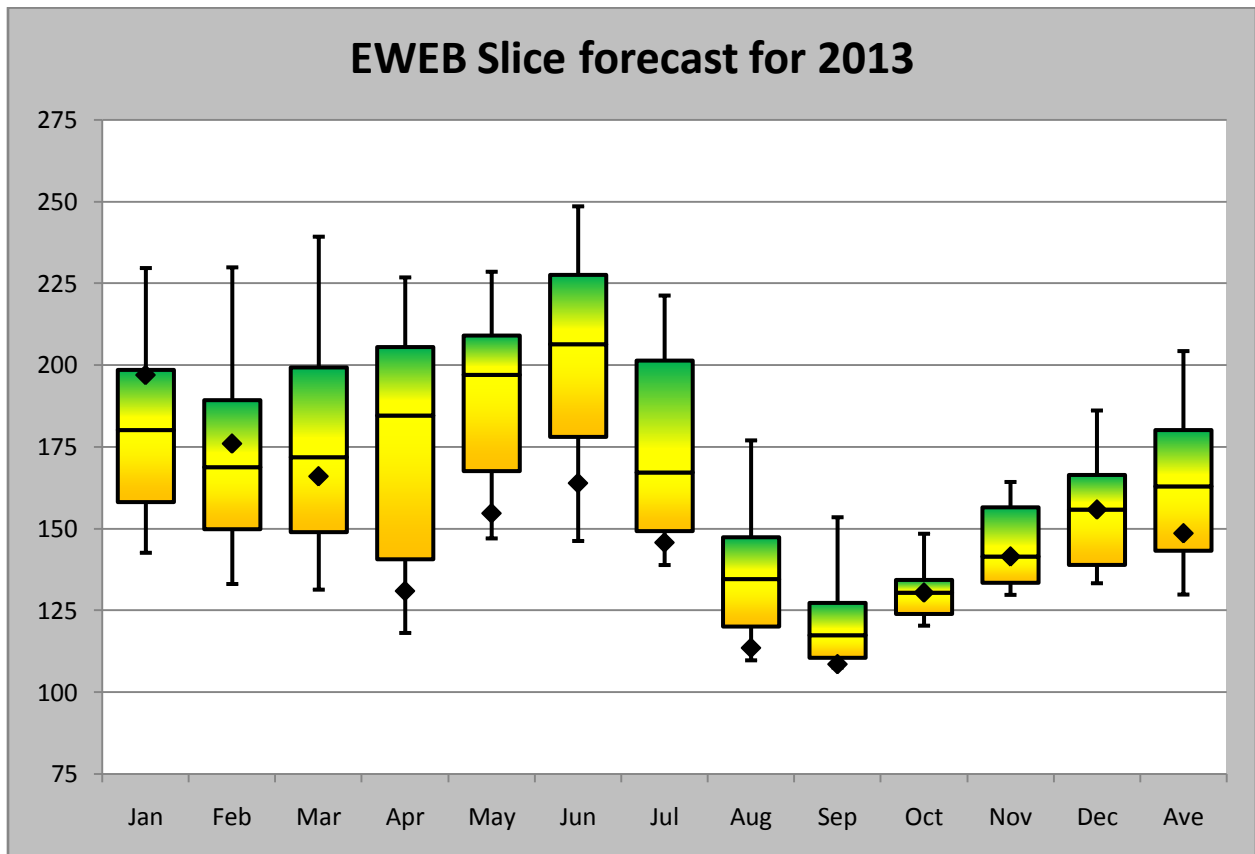
EWEB staff met with new ODOE Director Lisa Schwarz in mid-December, just a few days after her start date at the agency in her new role (Director Schwarz had previously worked at ODOE in the 1990's, followed by a few years of time at the Oregon Public Utility Commission, and then consulting work). A robust discussion with her produced an idea to further ODOE staff knowledge of the public power business model and energy resource profile: EWEB staff and Oregon Municipal Electric Utilities (OMEU) staff will be giving a brown bag lunchtime presentation and Q&A session on January 29th to a select group of ODOE staff from several different work groups. Most ODOE employees live and work in investor-owned utility territories and the energy-efficiency territory served by the Energy Trust of Oregon, and they

have less familiarity with public power model and BPA. Additionally, ODOE employees rarely interact directly with public power customers or ratemaking and are somewhat insulated from the rate pressures and economic factors affecting consumer-owned utilities in the Pacific Northwest. This brownbag event may prove beneficial to increasing future ODOE recognition of the benefits of the public power model and the importance of considering ratepayer perspective.

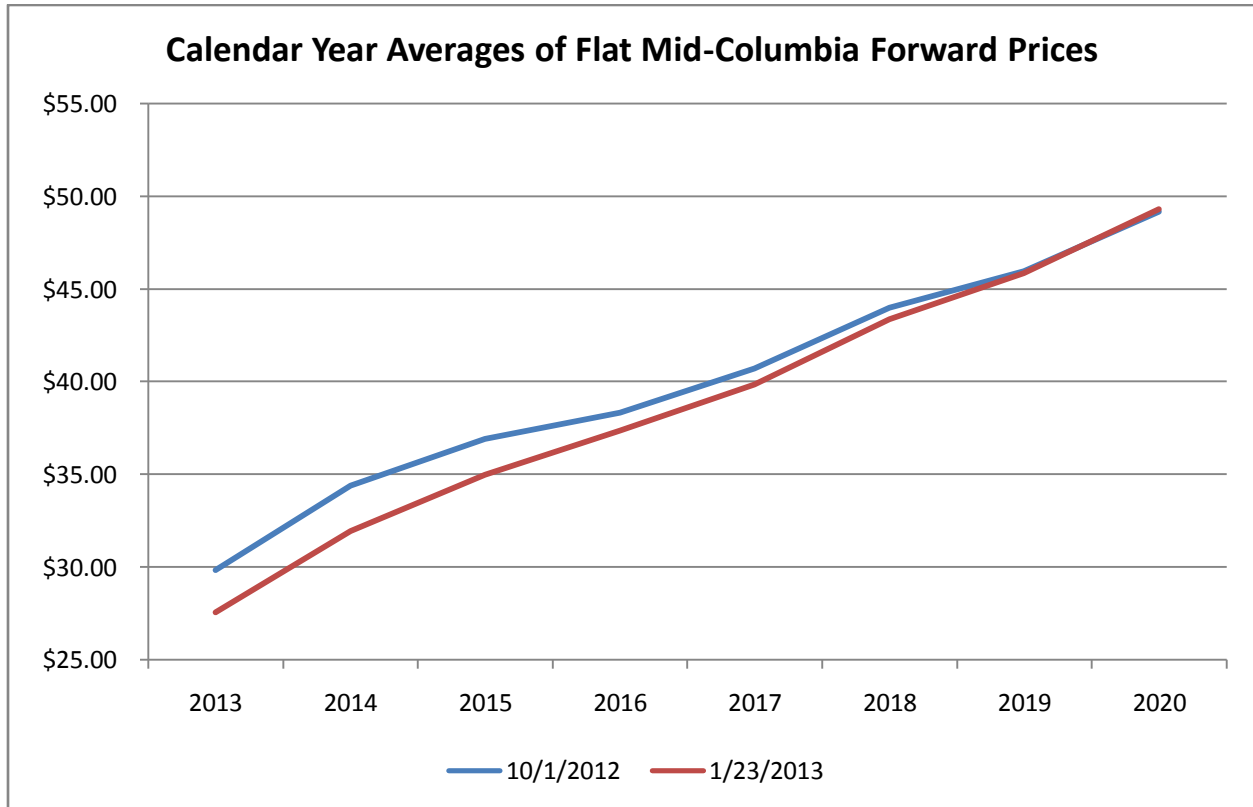
Market Update

The chart below is a depiction of current forecasted water supply forecast for the Columbia River at The Dalles. The lines represent the historical range of values over the past 70 years, while the boxes represent approximately 90% to 110% of normal water supply. The current hydro forecast for each month is indicated by a diamond. January inflows are near the top of the range due to strong flows, drafting at coulee and colder weather region wide. Water supply in later months, including April through September, is below normal. This is due to two factors: 1) below average precipitation in January; 2) Aggressive use of water supply in nearby periods to meet regional demand. The forecasted average for 2013 (far right column) is near the bottom of the box, indicating that the forecast is near budget hydro.

Subsequent to this forecast, we have received updated hydro information that is more optimistic and the next forecast should show somewhat improved water supply numbers.

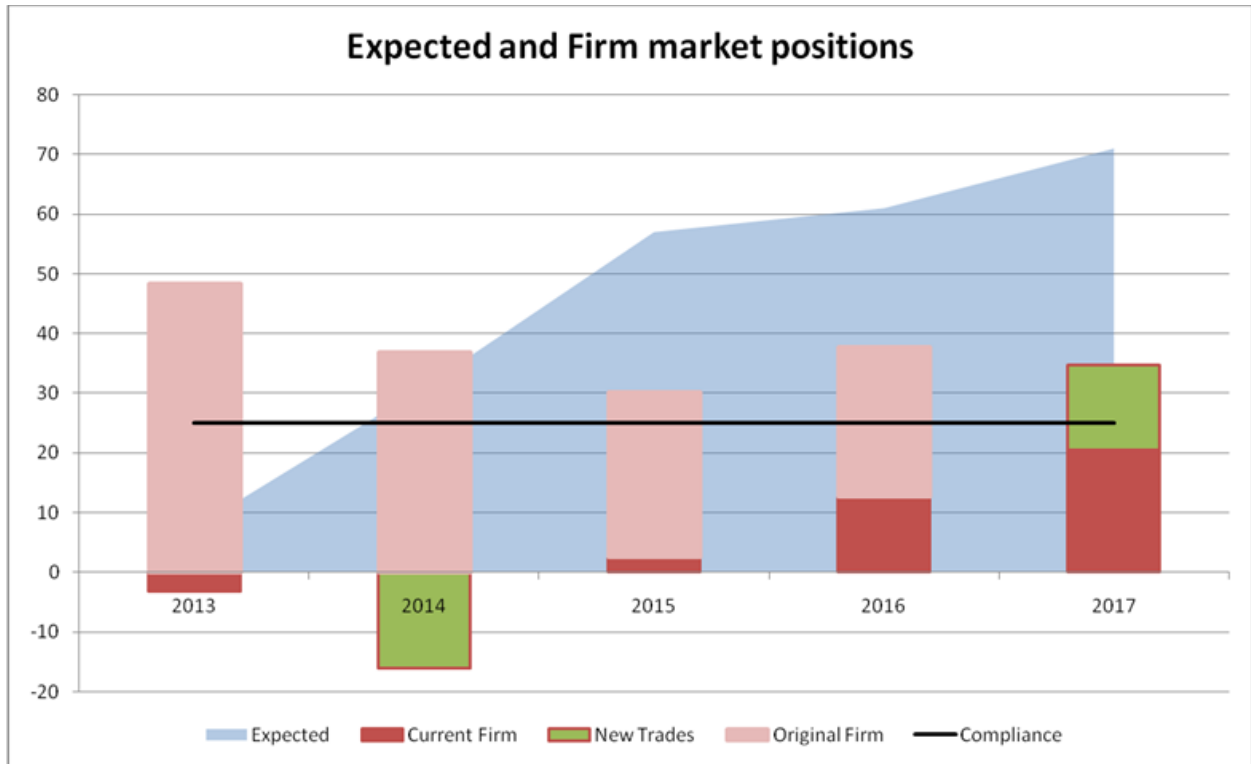


The chart below indicates current Northwest market prices as well as market prices provided for the last update in October. As shown below, prices have continued to fall across all time periods, with near term markets seeing the largest price declines. These prices are based upon actual market transactions (or absent transaction data, bids and offers in the market).



The chart below incorporates two water scenarios: firm and expected. Firm water is defined in EWEB’s Risk Management Procedures as: “...the worst annual hydro scenario in the historical record and represents approximately 70% of the annual median.” Expected water is defined in EWEB’s Risk Management Procedures as: “...the median or 50% exceedence outcome based upon current information and fundamentals.”

In the chart below, the blue line graph represents EWEB’s current expected energy position. The red bar illustrates EWEB’s current firm energy position. The pink bar graph represents EWEB’s firm energy position at the onset of the compliance period. The difference between the red bar chart and the pink bar chart represents trades executed by the trading floor. The green portion of the bar chart represents trades executed since the last board update in October. The solid horizontal black line represents trading limits specified in Board Policy (+/-25 MW based on firm hydro). We are also continuing the transition from treating the 3 year compliance requirement as a cap to a floor (meaning we now hedge for a minimum of 3 years and not a maximum of 3 years).



Recommendation

There is no recommendation.

Management will work to pass along relevant meeting notices were appropriate.

Requested Action

No specific action is requested, but Board feedback on what type of information they are most interested in for future updates would be welcomed.